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# Economic costs of the Israeli occupation for the Palestinian people*

## Note by the Secretary-General

The Secretary-General has the honour to transmit to the General Assembly the report prepared by the secretariat of the United Nations Conference on Trade and Development.

* The late submission of the present note is due to a backlog of documents for clearance.

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# Report prepared by the secretariat of the United Nations Conference on Trade and Development on the economic costs of the Israeli occupation for the Palestinian people

*Summary*

This report is submitted pursuant to General Assembly resolutions 69/20, 70/12, 71/20 and 72/13, in which the Assembly requested the United Nations Conference on Trade and Development to assess and report on the economic costs of the Israeli occupation for the Palestinian people.

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# I. Objective, mandate and limitations

1. The present report is submitted in response to General Assembly resolutions 69/20, 70/12, 71/20 and 72/13, in which the Assembly requested the United Nations Conference on Trade and Development (UNCTAD) to assess and report on the economic costs of the Israeli occupation for the Palestinian people.

2. The report follows the report transmitted by the Secretary-General to the General Assembly at its seventy-first session (see A/71/174), in which UNCTAD emphasized that occupation imposes heavy economic costs on the Palestinian people and stressed the need to evaluate those costs and understand their impact on the prospects for the welfare of the Palestinian people and the economic development in the Occupied Palestinian Territory. UNCTAD recommended the establishment within the United Nations system of a systematic, evidence-based, comprehensive and sustainable framework to estimate the economic costs of occupation and report the results to the General Assembly, not only to fulfil the aforementioned resolutions, but also to achieve a realistic pursuit of the Sustainable Development Goals in the Occupied Palestinian Territory and for forging a just and lasting peace in the Middle East.

3. The report builds on the previous report on this subject by drawing the framework and parameters for examining the economic cost of the Israeli occupation for the Palestinian people, as well as guiding the future work of economists in their implementation of the General Assembly resolutions. It has to be stressed, however, that the detailed work of assessing, estimating and reporting on the historical and recurrent costs of occupation needs to be based on solid objective and scientific grounds, and within the international framework set by the relevant United Nations resolutions. This requires more resources than are currently available, and therefore has not been addressed in this report.

# II. Some indicators of the cost of occupation

4. Not all occupation-related costs can be assigned a monetary value. Losses that cannot be assigned a monetary value include, but are not limited to, loss of life, normal family and community life, human dignity and loss of neighbourhood, culture, shelter and homeland. Therefore, the most that any assessment of the costs of occupation can achieve is a partial tally of a much greater loss.

5. The severe security measures and restrictions imposed by Israeli authorities over the years have taken a heavy toll on the Palestinians. Those measures, along with recurring periods of violence and hostilities, unilateral steps and internal Palestinian divisions, have resulted in extensive and systemic damage to the Palestinian economy, including inter alia an erosion of the productive base; the confiscation of land, water and other natural resources; restrictions on the movement of people, labour and goods; obstacles to accessing international markets; more than a decade of closure of the Gaza Strip; and the costly fragmentation of the Palestinian economy into three disjointed, disintegrated regions, in the Gaza Strip and the West Bank, including East Jerusalem.

6. There are significant restrictions on Palestinian development in Area C (more than 60 per cent of the West Bank area and some 10 per cent of its Palestinian population) and more than two thirds of grazing land, and more than 2.5 million productive trees have been destroyed under the occupation since 1967.[1] In 2013 the World Bank estimated that if businesses and farms were permitted to develop in

[1] TD/B/63/3 and TD/B/63/3/Corr.1, para. 42 (d).

Area C, this would add as much as 35 per cent to the Palestinian gross domestic product (GDP).[2]

7. In the Gaza Strip, the cost of three conflicts between Israel and militant groups in Gaza from 2008 to 2014 is estimated to be at least three times the potential annual GDP of Gaza.[3] In addition, restrictions on fishing off the coast of Gaza render 85 per cent of fishery resources inaccessible to Palestinian fishermen, and half of the cultivable area remains unreachable for producers.

8. Partial estimates from 2014 revealed that the Palestinian revenues that leak to the Israeli treasury represent approximately 3.6 per cent of GDP. If captured, these revenues could expand Palestinian fiscal space and increase annual GDP by about 4 per cent and generate 10,000 additional jobs per year.[4]

9. By 2005, at least one third of pre-2000 Palestinian physical capital had been lost. Had the pre-Oslo Accords growth trend continued, Palestinian GDP per capita could have been at least double its current size.[5] In its report of 2016 to the Trade and Development Board, UNCTAD stated that, without occupation, the economy of the Occupied Palestinian Territory could produce twice the GDP it currently generates.[6]

10. However, as indicated in the UNCTAD report of 2016 to the General Assembly (A/71/174, para. 56), all previous studies on the economic costs of the occupation were not conducted within a single comprehensive framework that could calculate the different types of losses and the direct and indirect costs in all economic sectors. UNCTAD concluded that the previous studies had merely scratched the surface of the much higher economic costs of occupation, and therefore recommended the establishment within the United Nations system of a systematic, evidence-based, comprehensive and sustainable framework for estimating, documenting and reporting the economic costs of the Israeli occupation for the Palestinian people.

## III. Acts and measures that impose occupation-related cost

11. There are many acts and measures that could impede economic development in an occupied territory, and therefore could add to the economic cost of the occupation. In this regard, UNCTAD in its report of 2018 to the Trade and Development Board elaborated on how half a century of occupation and appropriation of land and resources has impoverished the Palestinian people.[7]

12. The following sections provide examples of impacts of the Israel occupation. Further studies and research are needed to compile a full list of similar acts and to assess the full negative impact of each act.

### A. Construction of settlements in the Occupied Palestinian Territory

13. The settlements impose economic costs on the Palestinian population. Land is taken for the area of the settlements, thereby depriving Palestinians of the use of the land for productive purposes. Furthermore, large areas of land have been confiscated

[2] World Bank, "West Bank and Gaza: Area C and the Future of the Palestinian Economy" (Washington, D.C., 2013).

[3] TD/B/62/3, para. 38.

[4] Mahmoud Elkhafif, Misyef Misyef and Mutasim Elagraa, *Palestinian Fiscal Revenue Leakage to Israel under the Paris Protocol on Economic Relations* (New York and Geneva, UNCTAD, 2014).

[5] UNCTAD, *Policy Alternatives for Sustained Palestinian Development and State Formation* (New York and Geneva, 2009).

[6] TD/B/63/3 and TD/B/63/3/Corr.1, para. 51.

[7] TD/B/65(2)/3, para. 8.

to connect the settlements with roads in the territory of Israel. The General Assembly, in its resolution 72/13 of 30 November 2017, on the Committee on the Exercise of the Inalienable Rights of the Palestinian People, drew attention to the alarming findings, as reflected in the recent report on UNCTAD assistance to the Palestinian people: developments in the economy of the Occupied Palestinian Territory, which, among other things, contained information concerning the economic costs of the settlements.[8]

14. According to a recent report of the Secretary-General, "Besides allocating land for the purposes of constructing settlement housing and infrastructure, Israel supports the maintenance and development of settlements through the delivery of public services and the encouragement of economic activities, including agriculture and industry. Population growth in Israeli settlements is stimulated by housing, education and tax benefits. Similar incentives are provided for settlement industries."[9] According to Security Council resolutions 446 (1979) and 2334 (2016), the establishment by Israel of settlements in the Palestinian territory occupied since 1967, including East Jerusalem, has no legal validity and constitutes a flagrant violation under international law.

15. In Addition, goods produced in the settlements compete with Palestinian produced goods, as reflected by the fact that Palestinian imports from Israel were consistently more than 50 per cent of Palestinian total imports.[10]

## B. Construction of the "barrier"

16. In its advisory opinion on the legal consequences of the construction of a wall in the Occupied Palestinian Territory, the International Court of Justice indicated that the wall inhibited economic activity in the Occupied Palestinian Territory.[11] The construction has caused major disruptions to economic activity and involved the taking of significant tracts of land. It has particularly affected economic activity in the "seam zone", that is, areas on the western side of the "barrier" within the West Bank. At least 10 per cent of the most fertile land in the West Bank has been lost because of the construction of the "barrier". Palestinians who live in the seam zone need special permits to access their lands. A special permit or "prior coordination" is required for Palestinian farmers to access farm land designated as "closed" in the seam zone. If they are granted approval, farmers must cross designated gates along the "barrier" or checkpoints in order to reach their land. During the olive harvest of 2017, 76 gates were designated for agricultural access, down from 84 gates the previous year. Limitations on access have therefore forced some permit holders to stop cultivation altogether or shift to rain-fed and low-value crops. The takeover of land by Israel for settlements, for the wall and for related purposes constitutes a cost of occupation for the Palestinian people.

17. The evident and extensive nature of the damage caused by the construction of the wall led the General Assembly in 2006, by its resolution ES-10/17, to establish the United Nations Register of Damage Caused by the Construction of the Wall in the Occupied Palestinian Territory. The only focus of the Register is on the damage emanating from the construction of the wall; it does not cover any other measure taken by the occupying Power. Its mandate is to serve only as a record, in documentary form, of the damage caused to all natural and legal persons concerned

[8] TD/B/63/3 and TD/B/63/3/Corr.1.

[9] A/HRC/34/38, para. 17.

[10] UNCTAD calculations based on the Palestinian Central Bureau of Statistics and Israel Central Bureau of Statistics. See also TD/B/65(2)/3, table 1.

[11] See A/ES-10/273 and A/ES-10/273/Corr.1, paras. 133, 134, 136 and 152–153.

as a result of the construction of the wall, including in and around East Jerusalem. Damages are grouped into six categories, namely, agriculture (A); commercial (B); residential (C); employment (D); access to services (E); public resources and other (F). The vast majority of claims are categorized as agriculture losses.[12]

## C. Failure to promote economic development under occupation

18. If an occupying Power fails to ensure the economic development in the occupied territory over a long period of time, the negative economic consequences can be serious.

19. UNCTAD explains, for example, how the collection of Palestinian trade taxes by Israel negatively affects economic development. In accordance with the Protocol on Economic Relations between the Government of the State of Israel and the Palestine Liberation Organization (Paris Protocol), signed in Paris in 1994, Israel collects value added tax on Palestinian imports from Israel, clears Palestinian imports transiting through Israel's ports, collects customs and value added tax on those imports and transfers (clears) this tax revenue to the State of Palestine, which accounts for about three fourths of Palestinian public revenue; this enables it to exercise undue control over Palestinian fiscal affairs. UNCTAD reports and studies have highlighted the consequences of Israel's recurrent withholding of Palestinian clearance revenue as well as the annual leakage of hundreds of millions of dollars of Palestinian fiscal revenue to Israel because of this clearance mechanism.[13] The UNCTAD report of 2013 estimates that preventing Palestinian revenue from leaking to Israel would increase total public revenue by 17 per cent, covering 18 per cent of the public wage bill.[14]

20. Subsection E below contains further discussion of the failure by the occupying Power to promote economic development in different economic and social sectors in the Occupied Palestinian Territory.

## D. Military operations in the Occupied Palestinian Territory

21. Between 2008 and 2014, Gaza witnessed three major conflicts with Israel. Early conservative estimates for the military operation between December 2008 and January 2009 indicate economic losses to be around $2.5 billion.[15] The impact on the productive base of the local economy of the Gaza Strip could be a complete economic paralysis. A more recent estimate by the International Monetary Fund suggests that the 2008–09 conflict damaged more than 60 per cent of Gaza's total capital stock, while the 2014 conflict destroyed 85 per cent of what was left of the capital stock.[16] This indicates the destruction of 94 per cent of the capital stock in the Gaza Strip.

22. In its report of 2015 to the Ad Hoc Liaison Committee, the World Bank estimated that the direct cost for the last two military operations of 2012 and 2014 was $3.2 billion. Therefore, the direct cost of the three wars could add up to $5.7 billion. However, this is a minimal estimate that does not include the indirect costs that arise from lost or degraded human capital, the economic multiplier effect

[12] TD/B/63/3 and TD/B/63/3/Corr.1, para. 46.
[13] Ibid., paras. 16–17.
[14] TD/B/60/3, para. 43.
[15] TD/B/62/3, para. 38.
[16] International Monetary Fund, "West Bank and Gaza: Report to the Ad Hoc Liaison Committee" (31 August 2017), annex III, para. 6.

and backward and forward linkages and future income streams from destroyed or damaged productive assets.[17]

## E. Acts affecting economic sectors, natural resources, labour market and social sectors

23. As indicated above, previous studies had only scratched the surface of the total and cumulative cost of occupation, which suggests that the magnitude of the cost is huge. The cost emanates from Israeli practices in numerous sectors of the Palestinian society and economy. The following paragraphs list of some the sectors affected by those practices.

24. **Agriculture**. An UNCTAD study entitled *The Besieged Palestinian Agricultural Sector* indicates that Israel has taken control of large areas of Palestinian land for the construction of settlements, roads for settlers and the "barrier". Consequently, since 1967, Palestinians have lost access to more than 60 per cent of West Bank land and more than two thirds of grazing land. In the Gaza Strip, half of the cultivable area is inaccessible to Palestinian producers.[18]

25. **Manufacturing**. A recent UNCTAD study indicated that "in the industrial sector, occupation and related uncertainty, and the restrictions on movement and access, have stifled investment and limited the Palestinian private sector to small-scale operations with low capital intensity and efficiency". Effectively, the Israeli restrictions have stunted Palestinian industry through control of borders and by restraining Palestinian production and importation of input materials needed in manufacturing.[19]

26. **Fisheries** constitute part of the economic wealth of a country. However, fishing off the coast of the Gaza Strip, the only area in the Occupied Palestinian Territory with an access to the sea, was restricted at times to 3 nautical miles and sometimes extended to 6 or 9 nautical miles, instead of the 20 miles stipulated in the Oslo Accords. As a result, 85 per cent of fishery resources are inaccessible to Palestinian fishers.[20] The Palestinian fishing industry has collapsed almost completely, the reach of fishermen steadily declining since 2000. Moreover, the yield from allowed fishing areas has declined, because of overfishing and the contamination caused by the dumping of sewage water into the sea after the destruction of the sewage treatment facility during the Israeli military operation in December 2008 to January 2009.[21] A fact-finding mission of the Human Rights Council, which examined the 2008–2009 military operation of Israel in Gaza, noted that Israel "controls the territorial sea adjacent to the Gaza Strip and has declared a virtual blockade and limits to the fishing zone, thereby regulating economic activity in that zone".[22]

27. **Communications**. Israel restricts Palestinian telephone providers with respect to the bands they can use. A study on the Palestinian telecommunications sector concluded that the loss for the Palestinian mobile telephone sector in 2013–2015 was in the range of $436 million to $1,150 million.[23]

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[17] TD/B/62/3, para. 37.

[18] TD/B/63/3 and TD/B/63/3/Corr.1, para. 34.

[19] Ibid., para. 35.

[20] Ibid., paras. 34 and 42.

[21] TD/B/59/2, para. 40.

[22] Report of the United Nations Fact-Finding Mission on the Gaza Conflict (A/HRC/12/48), para. 278.

[23] World Bank, "Telecommunication sector note in the Palestinian territories: missed opportunity for economic development" (2016), p. 8.

28. **Tourism**. The Occupied Palestinian Territory contains sites important to world history, potentially making tourism a major industry. However, the occupation has damaged the Palestinian capacity to take advantage of tourism, because valuable tourism assets, such as East Jerusalem, are under occupation. The Palestinian tourism industry is also hindered by other factors such as the restrictions imposed by Israel on movement, access and physical development.[24]

29. **Mining and offshore minerals**. Israel has granted leases for drilling in gas fields off the coast of Gaza. As a result, Palestinians have not been able to develop the gas field known as Gaza Marine, which was discovered in the 1990s.[25] According to a report by UNCTAD, two high-quality gas fields have been discovered: one entirely within the waters of the Gaza Strip, the other on the border with Israel. The occupying Power has not allowed Palestinians to develop and use the offshore natural gas fields discovered off the Mediterranean coast, which could provide badly needed energy for the development of the entire Occupied Palestinian Territory.[26] A recent Palestinian study on restrictions placed by Israel on Palestinian activities relating to natural resources in the Occupied Palestinian Territory indicates that expropriation of building stone in Area C by Israel was estimated at about $900 million annually (0.7 per cent of GDP in 2015), and stated that Israel had denied Palestinians the right to explore for oil and gas resources in the West Bank and the Gaza Strip.[27]

30. **Underground aquifers/water**. Underground water is part of the wealth and natural resources of a territory or a country. According to a World Bank assessment of 2009, only 35 per cent of irrigable Palestinian land is irrigated, costing the Palestinian economy up to 110,000 jobs per year and 10 per cent of GDP.[28] Agricultural activities have therefore become less viable and many farmers have been forced to abandon cultivation.

31. **Labour market**. Restrictions imposed by Israel limit employment opportunities in the domestic Palestinian economy.[29] Therefore, a significant number of Palestinian workers are resorting to jobs in Israel and its settlements. Palestinians workers can be subjected to wage discrimination and violence from settlers.[30]

32. **Nutrition, housing and medical services**. Measures targeting Palestinian agriculture have hampered food production, and policies on labour and employment have limited the income available for the purchase of food.[31] The housing situation is rendered worse by demolitions, which are carried out as a punitive measure or for inability to obtain construction permits, which are virtually impossible to obtain.[32] Israeli measures and restrictions on mobility in the Occupied Palestinian Territory have had a negative impact on the medical sector and the quality of medical care

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[24] Orhan Niksic, Nur Nasser Eddin and Massimiliano Cali, *Area C and the Future of the Palestinian Economy*, a World Bank study (Washington, D.C., World Bank, 2014), p. 32.

[25] See Susan Power, *Annexing Energy: Exploiting and Preventing the Development of Oil and Gas in the Occupied Palestinian Territory* (Ramallah, Al-Haq, 2015). See also Lydia de Leeuw, "Beneath troubled waters: Noble Energy's exploitation of natural gas in the Eastern Mediterranean Sea", Centre for Research on Multinational Corporations, 2017; available at www.somo.nl/wp-content/uploads/2017/05/Beneath-troubled-waters.pdf (accessed 27 September 2017).

[26] TD/B/62/3, para. 49.

[27] Walid Mustafa, *Palestine's Natural Resources: Potential and Limitations on Exploitation* (Jerusalem and Ramallah, Palestine Economic Policy Research Institute, 2016). Available at http://mas.ps/files/server/20162404092052-1.pdf (accessed 10 September 2018).

[28] World Bank, *West Bank and Gaza: Assessment of Restrictions on Palestinian Water Sector Development*, Report No. 47657-GZ (Washington, D.C., 2009).

[29] TD/B/63/3 and TD/B/63/3/Corr.1, para. 6.

[30] TD/B/64/4, paras. 53–54.

[31] TD/B/63/3 and TD/B/63/3/Corr.1, para. 7.

[32] Ibid, para. 8.

available to the Palestinians. Prolonged closure and three conflicts in Gaza have impeded the importation of medical equipment.

33. The list above is an indicator of the magnitude, complication and multi-dimensionality of the assessment and documentation of all aspects of the cost of the Israeli occupation for the Palestinian people. It has to be stressed, however, that this list is not exhaustive, and almost all the costs associated with it have not been assessed. This will require securing new resources without which this task cannot be accomplished.

## IV. Conclusion and recommendations

34. Economic development is a policy goal, a desideratum for all peoples. It becomes especially important for the entire international community to promote development, and the international community should ensure that the occupying Power promotes economic development.

35. There is an urgent need to establish within the United Nations system a systematic, evidence-based, comprehensive and sustainable framework to assess the costs of occupation and report the results to the General Assembly to fulfil the requests in the relevant resolutions towards achieving a just and lasting peace in the Middle East. The establishment of such a system will require securing additional resources.